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PRESENTATION

Operator

Good day ladies and gentlemen, and welcome to the third-quarter 2016 Genpact Limited earnings conference call. My name is Chanel, and I'll be your conference moderator for today.

(Operator Instructions)

As a reminder, this call is being recorded for replay purposes. I would now like to turn the call over to Roger Sachs, head of Investor Relations at Genpact. Please proceed, sir.

Roger Sachs - *Genpact Limited - Head of IR*

Thank you, Chanel. Good afternoon, everybody, and welcome to Genpact's third-quarter earnings call to discuss our results for the quarter ended September 30, 2016. We hope you had a chance to review our earnings release, which was posted to the IR section of our website, genpact.com.

With me in New York today, are Tiger Tyagarajan, our President and Chief Executive Officer, and Ed Fitzpatrick, our Chief Financial Officer. Our agenda today will be as follows: Tiger will provide a high-level overview of our results, as well as update you on some of our strategic initiatives. Ed will then discuss our financial results in greater detail, and provide an updated full-year outlook. Tiger will then come back for some closing comments and then we will take your questions. And as Chanel just said, we expect the call to last about an hour.

Some of the matters we will discuss in today's call are forward-looking. These forward-looking statements involve a number of risks, uncertainties, and other factors that could cause actual results to differ materially from those in such forward-looking statements. Such risks and uncertainties are set forth in our press release.

In addition, during our call today we will refer to certain non-GAAP financial measures which we believe provide additional information for investors, and better reflect the way management views the operating performance of the business. You can find a reconciliation of these measures to GAAP, in our earnings release in the IR section of our website. And with that, let me turn the call over to Tiger.

Tiger Tyagarajan - *Genpact Limited - President and CEO*

Thank you, Roger. Good afternoon, good evening, good morning everyone, and thank you for joining us today for our 2016 third-quarter earnings call. Genpact delivered another quarter of solid results. Our top-line growth was driven by a significant round in our Global Client BPO business, where we continue to see strong results.

Our transformational consulting digital and analytics services, grew more than 20% during the quarter, and represent about 20% of total company revenues, clearly demonstrating that our unique Lean Digital approach is resonating with our clients. Specifically during the quarter, total revenues increased 7% on a constant currency basis. Global Client revenues increased 10% on a constant currency basis. Global Client BPO revenues grew 15% on a constant currency basis.

GE revenues declined 8% on a constant currency basis. Adjusted operating income was up 7% year-over-year, with a corresponding margin of 16.1%, and adjusted EPS was $0.37 up 6% year-over-year. Global Client revenues grew 10% on a constant currency basis, up from 8% during the first half of the year. This was driven by 15% constant currency growth in our Global Client BPO business, as our highly differentiated Lean Digital approach continues to generate excitement in the marketplace.

Non-digital technology spending continues to be an issue across the industry. We are not seeing any signs of a rebound in technology spending within the investment banking and healthcare industries. This led to our Global ITO revenues declining by 9% during the third quarter. In addition, we are beginning to see technology spending contract more broadly across industry verticals. As we move into the year-end, the uneven global economy is causing many clients across various verticals to take a very cautious approach towards discretionary technology spending.

Global Client growth continued to be strong across many of our targeted verticals, including banking and financial services, CPG, life sciences, insurance, and high tech. Apart from our transformational consulting digital and analytics services, that once again grew more than 20% in the quarter, we also saw solid growth from our financial accounting and core industry vertical operation service lines.

GE revenues declined 8% on a constant currency basis. We continue to feel the impact from the phase out of the corporate finance and risk work we do for GE Capital. And we also began to see GE cut back on their discretionary ITO spending. We continue to make great progress signing revised contracts with the various buyers of the GE Capital divested businesses, and to date, we have long-term contracts with seven new clients. We are in active discussions with the remaining buyers and believe we will close new contracts with the majority of these early next year.

Our BPO pipeline continues to grow across most of our targeted verticals, service lines, and geographies, and we are pleased with our win rates. Over the past three years as we have executed on our strategic journey of being focused on a set of chosen industry verticals, service lines, and geographic markets, we have been rationalizing our overall client portfolio, moving away from businesses that fall outside of our targeted areas.

Consistent with this strategy, during the third quarter we sold Atyati, a rural retail banking platform business, focused on Indian market that was non-core to our operations. While this divestiture has a small impact our current your revenue, it importantly allows us to deploy our resources, capital, and leadership bandwidth to the areas where we believe we have a competitive advantage, see significant growth potential, and create value for our clients and ourselves.

I want to step back now, and discuss the way we see our client's businesses, opportunities, and challenges both today and into the foreseeable future. We are seeing three clear trends. First, the volatile and low-growth global macroeconomic environment, coupled with the rapid evolution of digital technologies, is driving more and more companies to look for completely different ways to do business by experimenting with new, highly-disruptive business models. This often means that they have to transform their operations to become much more nimble and agile.

Our Lean Digital approach brings together deep domain knowledge, of the specific industry context, design thinking methodologies, end-to-end process understanding, and a set of digital technologies to completely reimagine the way clients run their businesses and drive transformation. These transformational engagements implement full end-to-end solutions from the front office all the way through the middle and back office. By providing a full solution and attacking the entire process, we can ultimately drive client's top-line growth through dramatically reduced end customer response times and enhanced customer experience.

These Lean Digital transformation journeys also lead to significant broader outcome improvements, such as: reducing claims fraud in insurance industry, cutting back in delinquencies in losses in the consumer and commercial lending Industries, and dramatically improving the cycle time of order fulfillment and supply chain responsiveness in the CPG industry. Apart from improving client's top-line trajectories, these transformational journeys also drive significant cost reductions. Very often, our engagements with both new and existing clients start with the Lean Digital design thinking consulting engagements, that often leads to downstream managed services.

The second trend is driven by the accelerating pace of innovation, where boards and CXOs in all industries are talking about digital disruption. As a result, we are now engaging with clients at deeper and more strategic level, and given widespread interest in our highly differentiated Lean Digital approach, we are participating in deals that historically we would not have been a part of.

And the third trend, is that these business transformations are no longer exclusively driven by the CIO. CEOs, business leaders, CFOs, Chief Marketing Risk or Operations Officers, are personally leading these initiatives, where partners having deep industry knowledge and process expertise win the day.

Given these trends, and the increasing awareness in our Lean Digital approach, activity at our innovation center in Silicon Valley continues to ramp, drawing significant CXO interest. Many clients are collaborating with our digital experts industry and domain specialists, and analytics data scientists to use design thinking and high velocity engineering to rapidly develop new digital solution prototypes that drive disruptive outcome improvements. These types of engagements position us well for future work as clients look to operationalize these innovations with broader, deeper rollouts.

Let me share four examples of how Lean Digital is transforming client's business models. First, using our Lean Digital design-thinking led approach, it took only five months for a large diversified manufacturing client to change the way it delivers price quotes on complex engineering solutions to their team in the field. Using computer vision, machine learning, and dynamic workflow, combined with our deep understanding of their domain we have collapsed their end-to-end cycle time to one day, from what had been more than 10 days. When this solution is rolled out the client should materially increase their win rates, enhance pricing, enhance grow revenue, and expand margins.

Second, we recently renewed a relationship with a very large global life sciences company, where we deliver global finance, and accounting, and procurement operations. This engagement now incorporates a material outcome-based commercial model linked to working capital improvements, controllership improvements, and cycle time improvements. We are applying our Lean Digital approach to automate these end-to-end processes to shorten the close cycle, improve DSOs, and drive higher procurement savings.

Third, we collaborated with an asset-based digital lender, providing revolving credit to small and mid-sized businesses, to develop and launch an innovative platform that completely transforms online lending business models. Using sophisticated data analytics and digital technology, the new platform reimagines the end-to-end receivables lending processes. It makes the whole customer experience seamless and intuitive, and uses machine learning in the background to improve decision-making. Our deep understanding of the small and medium business lending domain gave us the edge to develop this platform, that over time we believe we can leverage across multiple clients.

And fourth, we used our mobility expertise, our domain expertise in the healthcare space, and our analytics data scientists to create a HIPAA compliant mobile phone app for a leading medical devices company. The app enables emergency responders to take better care of stroke patients by gathering and transmitting vital statistics to doctors and alerting hospitals of treatment options during the critical period prior to hospital admission.

M&A continues to be a priority for us, and we are focusing our strategy around two key areas. First, adding digital and analytics capabilities to help accelerate the build out and deployment of our digital assets and solutions, as part of our overall Lean Digital strategy. Second, to continue to add domain acumen and capabilities in our targeted verticals and services, where we see attractive growth opportunities.

We believe organic investments and strategic partnerships, along with targeted acquisitions, provide the most effective way to accelerate the rollout of digitally enabled disruptive solutions to our clients. We have a robust pipeline of opportunities in a number of our key areas as potential acquisition targets, and our strong balance sheet provides the flexibility to pursue the right deals.

With that, let me turn the call over to Ed for a more detailed review of the [third] (corrected by company after the call) quarter results.

Ed Fitzpatrick - *Genpact Limited - CFO*

Thank you Tiger, and good afternoon, everyone. Today I'll provide you with more detail on our third-quarter operating results, as well as key balance sheet, and cash flow highlights.

During the quarter, we generated total revenues of $649 million, an increase of 5% year-over-year, or 7% on a constant currency basis. Revenues from Global Clients, which represent 84% of total revenue, increased 8% year-over-year, or 10% on a constant currency basis. Within Global Clients, Business Process Outsourcing revenues grew 13% year-over-year, or 15% on a constant currency basis, and were up sequentially from 10% in the second quarter.

Our Global Client IT Services revenues declined 9%. GE revenues, which represented 16% of total revenue decreased 8%. During the quarter, overall Business Process Outsourcing revenues, which represent 81% of total revenues, increased 9% year-over-year, while total IT Services revenue declined 8%.

The 12 month period ending September 30, 2016, we grew the number of Global Client relationships with annual revenues over $5 million, to 107 from 103. This includes client relationships with more than $15 million in annual revenue decreasing to 33 from 34, and client relationships with more than $25 million in annual revenue remaining constant at 16. We now of six relationships, including GE, with more than $50 million in annual revenue up from four.

Adjusted income from operations for the quarter was $104 million, up 7% year-over-year, with a corresponding margin of 16.1% up from 15.7% during the same period last year, and 14.9% from the second quarter. The 40 basis point improvement year-over-year, was primarily due to improved productivity and foreign currency gains. The 110 basis point sequential margin improvement was largely driven by productivity, and leverage from G&A expenses.

Gross margins grew to 39.5% from 39.2% last year, primarily driven by productivity and favorable foreign currency. SG&A expenses totaled $157 million compared to $145 million in the third quarter of last year. Our sales and marketing expense as a percentage of revenue this quarter was approximately 6.6%, flat year-over-year. Total G&A expense as a percentage of sales increased as expected, by approximately 80 basis points year-over-year, largely driven by continued investment in domain expertise, as well as digital and analytics capabilities. Sequentially, we drove significant operating margin improvements due to ramping revenues and leverage from SG&A costs.

Adjusted operating earnings for the current quarter includes a $5 million charge related to a mortgage platform asset. This charge was offset by a $5 million gain on the sale of our Atyati business. Adjusted EPS for the third quarter was $0.37 per share, compared to $0.35 per share last year. The $0.02 year-over-year increase was primarily driven by higher operating income of $0.03, and the impact from a lower share count of $0.01, partially offset by a $0.02 impact of balance sheet related FX gains last year.

During the quarter our Board of Directors authorized a $250 million increase to our share repurchase program, bringing the total authorization since we launched the plan in February, 2015 to $750 million. In the third quarter, we repurchased approximately 6 million shares at a weighted average price of $24.78, for total purchases of $156 million. Since launching the buyback program in the first quarter of 2015, we repurchased approximately 19 million shares at a weighted average price of $24.10 for total repurchases to date of $469 million.

Our effective tax rate during the third quarter was 20%, down from 21.1% in the third quarter of last year, reflecting changes in our jurisdictional mix of income and favorable resolution of certain tax matters from prior years.

Turning to our balance sheet, our cash and liquid assets totaled $419 million down from $468 million at the end of the third quarter of 2016. With undrawn debt capacity of approximately $235 million and existing cash balances, we continue to have ample flexibility to pursue growth opportunities. Our net debt to EBITDA ratio for the last four rolling quarters was approximately one.

We generated $144 million of cash from operations in the third quarter of 2016, compared to $139 million during the same period last year. Our Days Sales Outstanding remain in line with the level we saw during the second quarter, at 85 days. We expect the DSO metric to improve in the fourth quarter, more in line with historical levels.

Capital expenditures as a percentage of revenue were 3% in the third quarter. This included the continued development of certain Lean Digital assets, as well as adding capacity for growth.

Finally let me update you on our outlook for 2016. As Tiger mentioned earlier in the call, clients across multiple verticals are taking a very cautious approach to discretionary technology spending. This is causing a smaller-than-typical year end seasonal lift for short-cycle IT related work, impacting both our Global Client and GE business.

While IT is currently feeling some pressure, Global Client BPO growth expanded from 10% the second quarter to 15% in the third quarter, and we expect strong growth to continue in the fourth quarter. Given the lower IT spending ramp, we now expect full-year 2016 revenue to be in the range of $2.57 billion to $2.58 billion. The net foreign exchange adverse impact is now approximately $43 million up from our prior outlook of $41 million.

Global Client Revenues for 2016 are now expected to grow at approximately 9% to 10%, due to the decline in IT spending, with continued strength in our Global Client BPO business. Regarding GE, we now expect full-year 2016 revenues to decline approximately 6% due to contracted IT related spend. We continue to expect our adjusted operating margin to be approximately 15.5%, and our full-year effective tax rate to be in a range of 20% to 21%. Given the lower revenue outlook, we are now expecting cash flow to grow at the low-end of our prior guidance range, at approximately 6%.

While we are changing our top-line outlook, through disciplined cost management we expect to maintain our adjusted operating margin percentage. When combined with the benefits from our share repurchase program, we are increasing our full-year earnings-per-share expectation to be between $1.42 and $1.43. This assumes weighted average shares outstanding of approximately 211 million for the year, and includes 6.3 million shares repurchased during the third quarter, as well as a positive impact of approximately $3 million related to pre-tax foreign exchange gain on balance sheet related items, on year-to-date basis.

With that, I'll hand it over to Tiger for closing comments back

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Tiger Tyagarajan - *Genpact Limited - President and CEO*

Thank you, Ed.

In summary, as I said, there are three big trends sweeping our clients. First, they're all grappling with the slow growth world and digital disruption. Second, digital is a clear boardroom agenda item, and third, decision-making on business and digital transformation has expanded to include the full CXO suite. Our investments in digital analytics and domain capabilities, as well as senior client facing leaders, positions us well to take advantage of these trends. As a result, our number of CXO level transformation conversations have significantly increased. We also believe that our continued strong Global Client BPO growth demonstrates that our Lean Digital approach is resonating in the market.

Over the past year we have expanded the number of relationships with annual revenue greater than $50 million to six clients, up from four. As we continue to become more of a strategic partner with our clients, and transform their operations, we believe it will be possible to grow some of these relationships to over $100 million annually, as we go into the future. With that I'll turn the call back over to Roger.

Roger Sachs - *Genpact Limited - Head of IR*

Thank you Tiger. We would now like to open our call for your questions. Operator can you please provide the instructions?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Ashwin Shirvaikar, Citi.

Ashwin Shirvaikar - *Citigroup - Analyst*

Thanks. My first question is, Tiger, with regards to the three trends that you said, it would actually indicate that certain parts of your IT business, the higher-end parts, should actually be doing quite well because the need for advice -- which by the way I agree with, is there. So is this two separate things continuing to happen. Your BPO business is picking up, you're talking positively about Lean Digital, but on the other side IT continues to do not do well. We've talked about this in the past, is this about IT positioning? What you need to change in that business to get the whole thing moving in the right direction?

Tiger Tyagarajan - *Genpact Limited - President and CEO*

No, So Ashwin, it is actually the right question to grapple with and ask. And one response would be that portion of the IT business, which is deeply connected to understanding industry domain -- I'll give you an example, anything that is related to technology platforms, ERP platforms, and the commercial leasing and lending environment, is an area that we are very deep in our domain expertise.

We see great traction, and that traction is not just IT but it's IT converting to digital, converting to services, BPaas model, analytics wrapped around it, et cetera. So that is the portion of the IT business that's growing, even within the overall IT business declining.

As it relates to digital in the entire Lean Digital journey, it is actually embedding digital technologies in the broader services that we offer, and it therefore actually becomes part of one, either a transformational consulting engagement, and then subsequently in managed services. Those digital assets actually get embedded into a number of our BPO services and actually for us we don't segregate those out and call them out as separate digital technologies.

Over time, I agree with you. One of the things that we will evaluate is, are there digital services that we are best positioned to, particularly if it connects deeply to domain, that we should actually double down on and that's one of the things that we will probably by the time we get to our Investor Day in the first quarter we should talk more about that.

Ashwin Shirvaikar - *Citigroup - Analyst*

Okay. And just thinking a little bit from a modeling perspective, when I consider Global Client BPO growth, including I guess ex-GE revenue which is the right way to look at it, considering how much of GE revenues going to convert over to a Global Client. What's that growth rate from an exiting the year standpoint? And would that be a good proxy, then, to start thinking about BPO growth for next year?

Ed Fitzpatrick - *Genpact Limited - CFO*

I had mentioned Global Client BPO growth was about 15% in the quarter, and in the prepared remarks, said that we would expect good growth rate to continue for the full-year, the number was in the teens I think it was around 13%, I think, on a year-to-date basis, roughly. And I think, based upon where we are on a year-to-date basis, we won't guide to next year, but we are expecting that low-teen type of growth as we go forward. So we'll guide you when we come to the Q4 call but right now, based upon what we see and what we've done year-to-date, we expect that trend to continue.

Tiger Tyagarajan - *Genpact Limited - President and CEO*

So the only addition I would add to that is, we haven't done the modeling, to be fair Ashwin, on the GE business, the GE Capital business, that then gets converted by the time to get to next year into Global Clients, and what that does to the overall number. But leaving that aside, I think Ed's articulation of 13% constant currency growth for this year, driven by 15% constant currency growth in third quarter, we expect that trajectory to continue into fourth quarter. That sets us up for next year, our view, and it's too early, I think, to guide, but sets up nicely for next year. We haven't factored the GE Capital conversion in.

Ashwin Shirvaikar - *Citigroup - Analyst*

Can you separately comment on what is going on with the GE contracts that you're signing? Are they coming through with additional scope?

Tiger Tyagarajan - *Genpact Limited - President and CEO*

No, the contracts won't, Ashwin, to be fair, come through with additional scope on day one. The most important thing for you in these contracts, is continuation of service. The good news is these are very critical services, so the service has to continue, which is why we were always confident that we will sign these new contracts. Obviously it takes time for a brand-new MSA to be negotiated, with a number of these big buyers, big banks, big institutions. And that journey continues. Once the a contract is signed, then the new buyer gets under the tent and starts discussing with us, what else can we do? And you know our cycle, ours is a long cycle business, these are clients actually, who potentially, we have not worked with before, they have not worked with anyone before. That actually sets a nice stage for growth but it takes time.

Ashwin Shirvaikar - *Citigroup - Analyst*

Got it thank you, guys.

Operator

Joseph Foresi, Cantor Fitzgerald.

Joseph Foresi - *Cantor Fitzgerald - Analyst*

I was wondering, can you cut out for us, the piece of the IT services business that's now considered discretionary? And what your expectations for that discretionary piece going forward?

Tiger Tyagarajan - *Genpact Limited - President and CEO*

So Joe, we don't have a specific details cut out of discretionary IT spend. We don't. Suffice to say, that it is a material number. Particularly if you define discretionary, as projects that have a start and stop, that depending on macro trends or industry trends, or company trends, the company could decide to move that spend to a later date, to come back to it later, to actually stop a project, all of it happens, as you know, in that discretionary world. So, don't have a specific number. It is a material enough number for us to get impacted whenever there is a discretionary squeeze.

Joseph Foresi - *Cantor Fitzgerald - Analyst*

Let me just ask it a different way. Do we think that part of the discretionary spending piece of the puzzle has bottomed at this point? And have you made any changes there from a headcount perspective? I'm just trying to get an understanding of what we should be expecting from that business going forward.

Tiger Tyagarajan - *Genpact Limited - President and CEO*

The second part is an easy answer, Joe. In our industry, headcount adjustments, when you have revenue that doesn't conflict, is actually pretty easy because our global delivery footprint, with the kind of attrition rates that run in the industry, makes it very easy for us. So that's an easy answer. Headcount adjustments are already done, and we don't worry that much about it.

Has the decline in the IT business bottomed out? I would say we've taken into account three things. We've taken into account that what is sitting in our pipeline, which is actually reasonably healthy, even in our IT business. Decisions are not being taken, and they're getting extended out. And we've taken into account the fact that we don't know when those decisions are coming back. Second, we've taken into account the fact that some of the work that we were doing, and this includes both GE and Global Clients, is discretionary in nature. Those have been cut and they've been stopped. And the third is no new additions of material contents is getting added to the pipeline, particularly as it pertains to discretionary kind of spends, both in GE as well as Global Clients. When is that all going to come back? I think is the question that you are asking. If it will come back and will it further get reduced.

I don't think we can definitively say anything. It's so much dependent on some of the things happening around us in the world. There is one secular trend that is there, that is no surprise. There is a piece of spend that is constantly being reduced from what one would call the traditional IT bucket and is being moved to the digital bucket. And even in this discretionary attack and cut back on spend, the digital discretionary spend is not being attacked as aggressively. People want to preserve that.

Ed Fitzpatrick - *Genpact Limited - CFO*

Joe, all I would add, as you would expect with the fact that the decline in IT that we're talking about here is across multiple verticals. You would've expected the pipeline to be a different story. You heard Tiger say, the pipeline actually has stayed relatively stable, and even has grown in certain circumstances. So to us, it feels like it is a more of a macro-based item and we'll see.

IT as a short-cycle business, it can go up and it can go down. Right now, not a lot of visibility in terms of the timing of the turn, but the work is still there in terms of the pipeline. Now it's a question of when do they pull the trigger?

Joseph Foresi - *Cantor Fitzgerald - Analyst*

Got it okay. How does the BPO backlog look heading into 2017? Have win rates and wallet share gone up in BPO since you started using the digital assets? Could that be an accelerant to that growth rate?

Tiger Tyagarajan - *Genpact Limited - President and CEO*

So first of all Joe, we've always had very high win rates, so it hasn't gone up. It stayed around the high win rates we've always had, and we've kept it at that and we are very proud of those win rates. As we look at our 2017, it's too early to comment. I think the commentary that both Ed and I had around our expectation for Q4 in Global Client BPO, and the way we think about go forward, and the pull-through of that into 2017, is the way right now, I would think about it. Global Client BPO continues to do really well, and has got a lot of initial engagements attached to it, which are transformative consulting Lean Digital analytics engagements. And often those subsequently, historically has shown, convert into managed services for us. So, so far so good on all of those fronts.

Joseph Foresi - *Cantor Fitzgerald - Analyst*

And the last one from me, any color you can give us on the long-term contribution from GE? I know you're picking up business and losing business there, and it seems to be bouncing around little bit, but any long-term thoughts would be great. Thanks.

Tiger Tyagarajan - *Genpact Limited - President and CEO*

I think the math on GE Capital businesses sold, which once it transfers to the new buyers, we will start counting it as outside of GE starting next year, that itself will take the number to the 14% of mark, from a revenue concentration for us. And as we dial that forward into the balance of 2017, I would expect that number to further come down. Right? Because even in its best days, one wouldn't expect GE growth rates to match Global Client growth rates.

Joseph Foresi - *Cantor Fitzgerald - Analyst*

Got it. Thank you.

Ed Fitzpatrick - *Genpact Limited - CFO*

As we look at GE next year, we also talked about the work that will wind down that hasn't wound down to speed that we thought this year. GE, a similar type of -- hey we're going to expect that to be down again next year. Don't know yet, to the extent it's going to be, we'll guide you again. But that trend will continue, and --

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Tiger Tyagarajan - *Genpact Limited - President and CEO*

Because we also have the full-year impact, Joe, of ramp down this year particularly second half, that we expected and had happened, as well as the IT business crunch that has happened, unless it comes back, the full-year impact of that to be felt through in GE next year. All of that means basically the concentration of GE in our overall portfolio will continue to come down.

Joseph Foresi - *Cantor Fitzgerald - Analyst*

Thank you

Tiger Tyagarajan - *Genpact Limited - President and CEO*

Thanks Joe

Operator

George Tong, Piper Jaffray.

George Tong - *Piper Jaffray - Analyst*

Hi. Thanks. Good afternoon. You're maintaining your 15.5% full-year operating margin guidance, which based on the year-to-date performance implies a pretty sharp step-up in margins in 4Q, by my calculations about 200 basis points of year-on-year margin expansion. Can you discuss what you expect to be different in 4Q versus 3Q that will help you achieve that level of margin expansion?

Ed Fitzpatrick - *Genpact Limited - CFO*

I think you'll see more of the same that you saw from Q2 to Q3, in terms of leverage. We had a pretty good leverage point from Q2 to Q3 with managed spending levels, and you will see some increase in SG&A, but we will leverage that. Gross margins will be reasonably steady, the improvement really will come through the leverage of SG&A spending.

Tiger Tyagarajan - *Genpact Limited - President and CEO*

And George, to add to what I've said, if you historically go back to our margins, this typical trajectory is a trajectory that often our business exhibited. And that's because Q4 tends to be the best quarter from a revenue perspective, notwithstanding the fact that [in any case] out of the secular growth business. Q1 tends to be in wind down, particularly of short cycle projects, et cetera. We therefore get a significant lift in margins in Q4.

Ed Fitzpatrick - *Genpact Limited - CFO*

But to be fair, over the last couple years, we've been ramping up our selling and marketing, R&D spend, so you wouldn't have seen that trend. But as is typical in most companies, your ramp in the fourth-quarter revenue -- you don't typically see a ramp in SG&A spend to that order of magnitude. So a typical leverage should happen, and that's what we're expecting to happen in the fourth quarter.

Tiger Tyagarajan - *Genpact Limited - President and CEO*

And to round that out finally, to Ed's point I think our step-up ramp on both capability investment, and front-end investment in sales, we undertook that over the last couple of years. We don't expect that step-up ramp to happen as we go through Q4, so now we're going to get leverage.

George Tong - *Piper Jaffray - Analyst*

Got it. Very helpful. And then, switching to Global IT trends, how much of the Global IT revenue declines in the quarter is related to investment banking? How much is related to healthcare? And going forward, are there other verticals you'd call out, that could also represent a large drag on IT spending?

Tiger Tyagarajan - *Genpact Limited - President and CEO*

George, if you remember, last quarter, we called out investment banking and healthcare. We, at that time had said that we don't expect that to come back during the year, and is not coming back during the year. So actually, a lot of the call out now is not incremental investment banking and healthcare, it's much more -- basically all the other verticals: banking, insurance, manufacturing, and CPG life sciences, and GE. So it's not just Global Clients. It's Reasonably, all pervasive, at least for the industry verticals that we straddle, and we've taken all of that into account. And it's a combination of pipeline not converting, new pipeline not getting added, and existing work being stopped, and wherever it can be stopped.

George Tong - *Piper Jaffray - Analyst*

Got it and lastly, could you elaborate on some of the trends you're seeing in Global Client BPO in terms of pipeline growth and retention rates?

Tiger Tyagarajan - *Genpact Limited - President and CEO*

Retention rates are easy, George, as high as it's always been. As long as we deliver great services, as well as new thought leadership, such as for example the Global life sciences contract we talked about where this is the second renewal, so it's a pretty old contract -- second renewal, and we've converted the entire contract into a significant outcome based contract, driven by the leadership team at the client, as well as us, coming together and actually making it a completely outcome based contract. And as long as we continue to do that and bring that kind of to value to our clients, we see retention rates being extremely high in this business barring significant M&A activity that could change provider, et cetera.

To your earlier question, earlier part of the question --

Ed Fitzpatrick - *Genpact Limited - CFO*

What was the first part, bookings?

George Tong - *Piper Jaffray - Analyst*

Pipeline.

Tiger Tyagarajan - *Genpact Limited - President and CEO*

So our pipeline continues to be robust in the Global Client BPO space. As you can imagine, given the revenue growth rate around transformational-type engagements, those types of engagements in our pipeline are bigger than they used to be. A lot of our Global Client BPO engagements now have a significant transformational component that is often attached to it, and often at the front-end of it.

So, sometimes that Global Client BPO conversion takes a little longer to fully convert into revenue, because you often have an initial transformation engagement that's part of it. Sometimes it is only the transformation engagement, that then subsequently you have to go and win again, the managed services engagement, if there is one. All of which is the nature of the industry these days and I think those who are able to bring that value proposition together, upfront, in client conversations, in the C-Suite, in chosen industries with domain, digital, and analytics together, are the ones who have a seat at the table and who have a chance of winning. And we're seeing that play out very nicely, ever since we started focusing on energies around specific industry verticals, and building our capabilities, both at the front-end and on the capability side.

George Tong - *Piper Jaffray - Analyst*

Right. If I can sneak just one, quick, related question in, related to the pipeline. Last quarter I think you said, in the pipeline about 60% of contracts had some sort of a digital component. Can you talk about whether that 60% has gone up over the past quarter, and where it is currently?

Tiger Tyagarajan - *Genpact Limited - President and CEO*

Yes it's about the same, George, and we wouldn't expect that to significantly ramp in one quarter, given the long-cycle nature of the decision-making in our businesses. But there are segments of that where it's ramped up even more, and which you would expect. So in finance and accounting, as an example, it's actually now reaching almost 100% mark, where almost every single opportunity in our pipeline, in finance and accounting, has significant transformation and digital components, that are Lean Digital components, that are part of the deal, and part of the way that deal gets done and part of the differentiation that we bring to the table. So we would expect that to climb up over time. Broadly, I would say that 60% market still a good reflection of where it is today.

George Tong - *Piper Jaffray - Analyst*

Very helpful, thank you.

Ed Fitzpatrick - *Genpact Limited - CFO*

Thanks George.

Tiger Tyagarajan - *Genpact Limited - President and CEO*

Thanks George.

Operator

Anil Doradla, William Blair.

Anil Doradla - *William Blair & Company - Analyst*

Tiger and Ed, it's almost like a tale of two trends. There's a BPO trend there, and there's the ITO trend and they're moving in more or less opposite directions. So if I'm a skeptic, and I look at your ITO and say, okay, you're a BPO company. You're doing absolutely fantastic. Organic growth is one of the best in the industry, the market size is great and all that stuff. So let's put that aside but when I look at your ITO, and I see that you're competing with the big boys -- the big boys are under increased pressure, they're getting more desperate, pricing is more under pressure, and more importantly, the financial industry have never been big proponents -- and never embraced BPO.

So given that, as a skeptic, if one were to be a skeptical, given these trends are now going to change, what we're witnessing at the ITO, why should I believe that we are going to see a reversal of trends say in 2017, when there is a more case to be made of a structural headwind?

Tiger Tyagarajan - *Genpact Limited - President and CEO*

So Anil, you captured it right. So I couldn't have described our business better than you just did. Therefore, as we think about the balance of the year, as well as next year, we will have to carefully assess the strength of our Global Client BPO business, and how do we continue to drive that strength both in the industry and our position in the industry, and as we continue to do that, particularly the parts of our IT business, and I would call out some parts, which are actually very closely aligned to our domain expertise et cetera, leaving that aside, there are parts of ITO business which will continue to undertake the trend that you just described.

With the intensity of the competition, the intensity of the pricing pressure, all in a shrinking overall-pie environment. That could change if that pie changes, but -- to an earlier question, but we don't know that. The good news is that our business is materially and predominantly Global Client BPO, and it's only getting bigger.

Anil Doradla - *William Blair & Company - Analyst*

Wonderful so we are both on agreement with that. That's good. Now Ed, you talked about some of your spending priorities. Given what we're going to see over the next potentially three, four quarters, can you share with us what you're doing from a spending point of view on the ITO side? What kind of spending disciplines you're introducing? How you're reigning the costs, and more importantly, can you share some insights into the margin structure on the ITO side when you compare it with the BPO? Thanks a lot, guys.

Ed Fitzpatrick - *Genpact Limited - CFO*

I'll speak to last one, first. The ITO margins are different depending upon the projects had. The more closer they are aligned with the domain expertise, the higher the margin -- the more complex work, the higher margin. Overall, ITO margins are probably slightly below what we see in the BPO, and in other service lines that we have, but there's cases where we do have nice margins there as well, as I mentioned. I would say on that side, margins, that's where they are.

In terms of spend, we look at our business, both at a vertical level, and at a service line level, and are intensely focused on ensuring that we plan both top line and bottom line across both service lines, and in verticals. And we are working through squeezing spend everywhere we can. IT is probably squeezed the most, in terms of discretionary spend, to ensure that we are as profitable as we can be, without doing something foolish. So I would say we're squeezing everything, travel, headcount, productivity, bench levels. All that is being looked at with a very close eye, and we'll continue to do that as we proceed.

Tiger Tyagarajan - *Genpact Limited - President and CEO*

And Anil, our history of driving productivity in our business, is a long history. The fact that as the business changed its revenue outlook for the year, those cost measures, in that particular line of service line in business, is automatic and is par for the course. I wouldn't say that there's anything unique that were going to do next year. We are already doing it, and that's the reason why you also see our margin holding up to the 15.5%.

Anil Doradla - *William Blair & Company - Analyst*

Very good. Thanks a lot guys.

Tiger Tyagarajan - *Genpact Limited - President and CEO*

Thanks, Anil.

Operator

Edward Caso, Wells Fargo.

Edward Caso - *Wells Fargo Securities, LLC - Analyst*

Hi. I was tempted to ask on IT, but I'll behave myself. (Laughter) Could you talk a little bit about the Philippines? We have an interesting new president there, who's made interesting comments, and there's been a lot of global change. Can you frame how big your operations are, relative to the total delivery network? Any moves you're taking? Any questions you're getting from your clients about any potential risk? Thanks.

Tiger Tyagarajan - *Genpact Limited - President and CEO*

So obviously, we are watching the situation, Ed, to your point, very closely. Our country manager for Philippines is actually the President of the BPO and IT Services Organization, considered as the equivalent of Nascom, in Philippines, Dan Reyes, and has been our country manager for now many, many years. So he is well-connected to the industry, is extremely well-connected to the ministries that look after exports, commerce, technology, and so on. And our view, is that the government understands the importance of maintaining strong trade flows between the Philippines in the US.

And the clarification that we have from the official body is that -- the government has clarified that their position has nothing to do with trade flows. Has nothing to do with relationships around business and trade between the Philippines and the US. Having said that, to your question I think it's between 5% and 7% of our of our revenue. So it's not immaterial, but it's only about 5% or 7%.

It's a very nice part of our business, it has very meaningful relations with a number of our clients. The good news, Ed, is a lot of the work that we do there, is call-center type, customer facing work. Very often, it's global footprint with many delivery locations that we offer that client, as well as many delivery locations that often the client has. So therefore classic business continuity planning, disaster recovery planning, that allows work to move from one place to another, that we would execute on -- that we have executed in the past, weather or natural disasters have struck, unfortunately the Manila and Philippines area, that we have successfully executed for ourselves and for clients. I think we would execute those, we've kind of discussed those with our clients.

Our clients are in constant conversation with us. A number of them have their own captive operations there. I think it's obviously an important question. It's something to watch. It's something to keep ready as alternative options, et cetera. Just to be clear, we have clients right now, who are talking to us about ramping up in Philippines, just as we talk. So, that's the current situation. We are in constant communication with the clients, as well, on that exact situation.

Edward Caso - *Wells Fargo Securities, LLC - Analyst*

Can you talk a little bit about your platforms? I haven't heard much about that today. You used to talk a lot about KYC, or know your customer. Maybe an update where that is? How many platforms do you have? How many are actually being used at this point? And within the earlier comments about spend and investment, how much effort are you still putting into the whole platform effort? Thanks.

Tiger Tyagarajan - *Genpact Limited - President and CEO*

So obviously, platforms continue to be a focus area for our investments, our spend, and then our taking it out to market. The whole foray around digital is actually bringing in a bunch of these digital technologies and tools around the specific domain area, and building a platform that actually allows us to change the way sources get rendered.

One of the platforms, that is the most pervasive for us, is the finance and accounting platform, which started off with order to cash and has now progressed to being able to do source-to-pay reconciliations et cetera, all on the same platform. And that obviously is in integral to every one of our finance and accounting deals, which is what the penetration of digital in finance and accounting is so high, almost hitting 100% now, so that's a very critical platform.

We don't talk about it because it's almost become par for the course, for us. And it's part of the way that we differentiate ourselves in the marketplace, around finance and accounting. We have a significant platform around wealth management that we carved out from one of the big banks, and it's the open wealth platform that has a significant presence in wealth management, as a platform, both for the US and UK as a market. That's doing well.

We have the KYC platform which continues to make progress in terms of signing up banks, it has still taken time to ramp up volumes and therefore see the benefit of that ramp up as a utility. We continue to hope to see that going into the future, but as you know utilities take time to ramp up and we're still in the stage of actually bringing clients in, in order to get them to the table to actually put volumes into that platform. And then the mortgage platform, is the other platform that we built out. We took a charge right now in order to make sure that our balance sheet doesn't carry that.

Ed Fitzpatrick - *Genpact Limited - CFO*

That's right. That was the mortgage platform that -- it came to us by an acquisition. We continue to do the build out, had a list customers lined up. They hadn't come to fruition as yet. The product is still commercially viable but given the near-term outlook, we took out write down during the quarter to write that down to zero.

Although the mortgage business is still very attractive to us we, and do very well. In fact, we're driving growth in the mortgage business. So happy with that. And on the just overall macro CapEx related to digital, as you know, we progressed from 2% to 2.5% of revenue to closer to 3%. The big part of that incremental spend that we're making our CapEx is in a digital space on a lot of these asset build outs.

Tiger Tyagarajan - *Genpact Limited - President and CEO*

In the last one I would point out is, once again, the commercial lending example on receivables financing, that I described. Clearly that is a new build out for a specific client, and provides the opportunity to be leveraged now as we take it to other clients who have a similar kind of business. So I think, as we look at the various spaces where we have deep domain depth, understanding which of those present themselves as an opportunity to coinnovate with the client and build these out, in a very fast-cycle sprint -- because that's the nature of the current technology build outs. Some of them, by the way, will work. Some of them may not work. And then, fast failure is a good thing to do in this environment in the digital world, and then moving on to other opportunities.

Edward Caso - *Wells Fargo Securities, LLC - Analyst*

Thank you.

Ed Fitzpatrick - *Genpact Limited - CFO*

Thanks, Ed.

Operator

Keith Bachman, Bank of Montreal.

Steve Schneiderman - *Bank of Montreal - Analyst*

Hi this is Steve Schneiderman, pinch hitting for Keith tonight. Thanks for taking my call. Wanted to start off talking of capital allocation. Tiger, you mentioned about focus on M&A, something that's been a topic of the last couple analyst days. Given it's been such a focus, how are you seeing your progress made to date? I understand you have the pipeline that you are looking forward to, but in terms of your execution, are you at where you want it to be? Or do you think you need to step that one up a little bit to accelerate growth into next year?

Tiger Tyagarajan - *Genpact Limited - President and CEO*

Steve I think I think our pipeline is in the areas that we like, both in terms of vertical capabilities, both the choice of verticals we've made, and capabilities that would like to bring in, as well as, digital and analytics type capabilities that we would like to use acquisitions to add to our capabilities. I would say, the pipeline is strong. Having said that, I mean very clearly, the combination of making sure that it fits our culture, making sure that actually, the financial profile makes sense, while obviously the pipeline has strategic intent already as one of the reasons why it sitting there in the pipeline. I wouldn't necessarily as assume that a large pipeline means a certain number is going to close. We don't drive our acquisition journey with a goal that says we must acquire X amount of revenue, or we must spend X amount of our cash generation capabilities on acquisitions.

We feel good about the fact that the pipeline is the kind of thing that we'd like to look at. We could really make progress on those dialogues and sometimes we reach a conclusion that it's not something that we'd like to acquire. And we do that actually quite often.

And therefore, it is part of the three-pronged strategy of organic investments, partnerships, and alliances, both with large technology providers, as well as with startups, for point solutions and building out a platform and acquisitions. So it's a three-pronged strategy to actually go down that path.

Ed Fitzpatrick - *Genpact Limited - CFO*

On the dollars, order of magnitude, we've doubled the M&A, but it's still not to the level that we would want to get after. But, with that said, we did see attractive avenue via the share repurchase to get after that in terms of returning capital to shareholders. So you saw that in the year-to-date and the increase in the authorization from the Board

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Steve Schneiderman - *Bank of Montreal - Analyst*

Yes, fair enough. Moving onto a different topic, in terms of how you looked at FX for the quarter. You mentioned, Ed that there was a little bit of help on the margins. Can you quantify how much that was?

Ed Fitzpatrick - *Genpact Limited - CFO*

We've not said, but we've talked about that. What we've said is, what we typically do when we sign up a contract, let's say a five-year contract, we typically hedge that contact for the duration of the contract period. These are normal course of business, where if we take the risk on the FX, we'll hedge that, wherever the hedge needs to take place depending upon the delivery and the revenue country, we'll hedge that. So that's really just par for the course.

Steve Schneiderman - *Bank of Montreal - Analyst*

Okay, nothing out of the ordinary.

Ed Fitzpatrick - *Genpact Limited - CFO*

No. On revenues we've just said a, we were about $41 million at the beginning of the year, I think we got a little bit better at the end of the second quarter. Now back to a little bit worse, it's about to $2.5 million worse than where we were at the beginning of the year on revenue impact

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Steve Schneiderman - *Bank of Montreal - Analyst*

I have one more on cash flow. I believe you said last quarter, that if we're still 85 days, it might be an issue for meeting the cash flow target for the year. And it looks like were still at 85, and I understand we're pulling towards the lower end of the operating cash flow guidance, but are there any other puts and takes besides DSOs that we should be putting into consideration for achieving your cash flow targets?

Ed Fitzpatrick - *Genpact Limited - CFO*

There are puts and takes. I think I feel good about our ability to reduce it. We did, as you heard me talk about before, we have been in the process implementing Oracle 12, and we've done probably about 75% of it through the end of last year. We're taking our short-cycle business through that journey now. That probably a couple day impact in the this quarter, which I expect to be remediated in the fourth quarter. So, I do expect us to see better days and we said -- back to historical or Q4 levels, somewhere the lower 80 days range by the end of the year.

Steve Schneiderman - *Bank of Montreal - Analyst*

Sounds good thanks very much, gentlemen.

Ed Fitzpatrick - *Genpact Limited - CFO*

Thanks Steve

Operator

Puneet Jain, JPMorgan.

Puneet Jain - *JPMorgan - Analyst*

Thanks for taking my question. So your 25 million plus customers have continued to decline sequentially, over the last few quarters. Is that also related to IT services weakness somehow? Or something else going on there?

Tiger Tyagarajan - *Genpact Limited - President and CEO*

It is actually, obviously, when you look quarter by quarter, you see some of that moving. Most of it is related to IT, but as you can see at the same time, some of those same relationships have got to the $50 million bracket, and we can see a line of sight to some of them, going on to the $100 million bracket at some point in time. So I think what you're seeing here, Puneet, is part of our strategy that we launched in 2014, actually fully playing out. It has taken a couple of years plus, almost 3 years to fully play out. Which is, add to the front end, add senior leaders, get to the table at the C-suite to have strategic conversations, have a bunch of capabilities around domain, digital analytics, and then the pivot around Lean Digital. To participate in the conversation that is now becoming important conversation at the C-suite, and therefore drive, not just initial deals and relationships, but ongoing additional deals and relationship that takes that relationship to a much bigger number.

So you will see a divergence, where some of our smaller clients, as you've seen in our portfolio, actually go away. Some of the others, driven by IT businesses decline, actually become smaller, if the material portion of the relationship was IT, but a number of others actually grow substantially in the nature of that relationship. And the bigger they become, they also become much more strategic in the nature of those conversations.

Puneet Jain - *JPMorgan - Analyst*

Got it, and actually a great segue to my next question. So obviously, it's been three years since you try to reposition great returns in BPO, but overall growth hurt by IT services. Can you talk about need to offer IT services in capital market? Does that business, like the tech capabilities, does that help in developing platforms or offering core BPO? Why do you need to offer IT services to capital market customers?

Tiger Tyagarajan - *Genpact Limited - President and CEO*

I think, Puneet, it's a very strategic question. Which is, if you're in the capital market vertical, clearly it's important to be in technology, because that's important for the capital markets and investment banking verticals. So, the only way that your question can be reframed is, should you guys be in the investment banking capital markets vertical?

Now, that's a good question. I think, as always, a time and an opportunity to go back and evaluate the verticals. One is start up the services, one is offering what new services to add, how to pivot further, double down, reduce, and all of that, is part of our typical strategic look at our business, that I would argue in, our kind of a business, one should look at every couple of years. And I think we should be doing that soon.

Puneet Jain - *JPMorgan - Analyst*

Got it. Thank you.

Operator

Frank Atkins, SunTrust.

Frank Atkins - *SunTrust Robinson Humphrey - Analyst*

Thanks for taking my questions. I wanted to ask real quickly, any changes on pricing, either on the BPO or ITO side?

Tiger Tyagarajan - *Genpact Limited - President and CEO*

Nothing material to talk about on the BPO side, pretty stable. Obviously, as we do more Lean Digital transformation-type engagements, those type of engagements typically do tend to have better pricing, et cetera. But otherwise broadly, that landscape as long as one can find a way to make sure that one is driving disruptive value for your clients, is actually pretty stable.

IT? We actually talked about it. It's a competitive -- it's more competitive, it's more intense. Pricing is the levers that is being used in that competitive landscape, more probably today than it used to be, so that's an intense competitive landscape on pricing.

Frank Atkins - *SunTrust Robinson Humphrey - Analyst*

Okay. Great. Could you give us a quick update on where you stand in terms of sales capacity and productivity since you made some investments in that area a few years ago?

Tiger Tyagarajan - *Genpact Limited - President and CEO*

We ramped up our sales overall numbers, levels, quality, and capacity over the last three years. We believe that those step up ramps are behind us a little bit. We don't need to do it -- any step up ramps. But as the business grows, we will continue to grow our sales teams, and that continues to be on track. As new accounts get added, as accounts mature and become larger, and therefore require a more strategic client partner to own that relationship, all of those we continue to do, and therefore we continue to hire great salespeople into the team. Obviously, performance management is a big part of any sales organization, and we are a performance culture, so we continue to do that. Driving best practices across different sales teams, the ability to use tools and leverage those tools to drive productivity is again part of the way we drive productivity in our sales organization. And that continues to make good progress and good trend, barring obviously, portions of our business where, for a variety of reasons we've already covered, for example the IT business, sales productivity would naturally be lower. And then calls for action around what you do with IT team, how do you realign it, et cetera?

Frank Atkins - *SunTrust Robinson Humphrey - Analyst*

And last one from me. Could you just give us a quick update on where the Predix opportunities sits right now?

Tiger Tyagarajan - *Genpact Limited - President and CEO*

We are one of the chosen strategic partners for the Internet of Things journey, for GE, and Predix is GE's platform for that journey, so we are one of the chosen platforms. We work on three fronts. We continue to develop our people, in order to be able to take some of the work we do and for GE, and move that onto the Predix platform. The second is, we are working on new solutions for the GE businesses, that allows that work to then move on to the Predix platform. So we have a bunch of development folks around Predix that become part of that journey, and have pretty significant development team around Predix.

And the third is, which is probably the most interesting one for everyone, is actually take those capabilities to other industrial clients, other high-tech clients, who are also on an Internet of Thing journey, and offer them the opportunity to actually jump onto the platform, the opportunity to provide a bunch of services and analytics on Predix-type platforms with our services. So our ability to actually do system integration work, development work, and actually analytical services using Predix as a platform. All of that is what makes us a strategic partner for GE in that journey, and we feel very good about being part of that journey.

Frank Atkins - *SunTrust Robinson Humphrey - Analyst*

All right great. Thank you very much.

Operator

Bryan Bergin, Cowen.

Bryan Bergin - *Cowen and Company - Analyst*

Can you talk about transaction and outcome-based pricing trends? How those contract discussions with clients are going? And a sense of scale relative to your business?

Tiger Tyagarajan - *Genpact Limited - President and CEO*

Brian, it's still not as scaled up as one would like it to be. We obviously tee-up that conversation straight out of the gate in any new relationship, as well as, when we get to contract renewal, when we get to reshaping our relationship, the life sciences example being a great example of that. The reality is, that a number of our clients are on their own journey of transformation and it must fit in with their journey.

Some services offer themselves up for outcome-based pricing more easily than others. Sourcing and procurement is a great example. Receivables management is another great example. Some others don't.

If you're closing the books for a client, it doesn't offer itself up for outcome-based pricing that easily. I think it's a little bit of learning as we go along. The industry is learning, our clients are learning, we are learning. We think it will keep growing, and as we look into the future I think a larger proportion of our business will be outcome-based pricing, of various forms. It could be fixed price for certain period of time. It could be outcome-based with gain share. It could be transaction-based pricing. It could be all of the above.

Bryan Bergin - *Cowen and Company - Analyst*

Okay. Just on Brexit, anything to call out there? Any notable changes in client behavior or decision-making?

Tiger Tyagarajan - *Genpact Limited - President and CEO*

Nothing other than obviously it is one more uncertainty to add to the mix. If the client has a significant UK presence, particularly if that UK presence serves the rest of Europe, an example would be investment banks -- in global investment banks with UK footprints. So obviously, at the margin, it does impact our kind of a business, but it's only margin. It obviously slows down some decision-making, but again, I will say for us, it's only in the margin. It does create one more level of uncertainty that pushes out some decision-making, again only margin for us.

Bryan Bergin - *Cowen and Company - Analyst*

Alright. Thank you.

Tiger Tyagarajan - *Genpact Limited - President and CEO*

Thanks Brian

Operator

Bryan Keane, Deutsche Bank.

Bryan Keane - *Deutsche Bank - Analyst*

Hi guys. Just a couple clarifications. How widespread was the cut in projects in the IT cancellations? Was that new this quarter and was at all the way through the industry? Or was that only a couple client specific?

Tiger Tyagarajan - *Genpact Limited - President and CEO*

No, it's not a couple of client specific, Bryan, which is why I think we called it out as reasonably industry wide. If you understand our business in IT, it is not a couple clients making up a large portion of our business. It's actually reasonably fragmented, other than GE. We clearly saw GE discretionary spends being cut.

And almost at the same time, we saw banking clients, we saw insurance clients, which we had started seeing a little bit, but we saw pretty clear insurance clients cut. And we saw CPG clients, and we saw manufacturing clients. So for us it was an industry wide phenomena cutting across a range of clients, mostly revolving around -- is it important for us to run this project now? Is it important for us to kick this off now? I know we've talked to you, and therefore it's sitting in your pipeline, why don't we wait? We'll come back to it later. And a lot of those are ones that they can push out, and there's no need for a number of them to do anything in the third and fourth quarter. And we saw that ripple through a number of the industry's that we serve, other than healthcare and investment banks, where we saw that much earlier.

Bryan Keane - *Deutsche Bank - Analyst*

And were there cancellations as well, where they just decide to forget it, it's not the pipeline at all. We're just not going to do this anymore.

Tiger Tyagarajan - *Genpact Limited - President and CEO*

Yes, absolutely. And then when we talk about cancellation, it's cancellation of work that we are doing at the moment. That had happened in a number of our client situations, and that's the nature of some of this work. It is possible to get back and cut down on.

Bryan Keane - *Deutsche Bank - Analyst*

Okay. When I compare guys growth rates in IT versus the industry, you guys are a little bit below where the industry is tracking. Are you guys losing share? Or is that just because of the verticals you guys are in?

Tiger Tyagarajan - *Genpact Limited - President and CEO*

No. I would say we would be losing share. It is no surprise, that is true. Given the size and scale of that business, versus our competitors, and given our focus on industry domain-led IT that is connected to the depth of domain that we have in certain specific industry verticals. Clearly those portions of the business, we would not be winning as much as we can.

Bryan Keane - *Deutsche Bank - Analyst*

Okay. So I guess the question then, is if you're going to keep the IT service business? How are we going to fix it? What's the plan to change the trajectory that it's on?

Tiger Tyagarajan - *Genpact Limited - President and CEO*

That's a question that, Bryan, I talked about earlier to an earlier question. I think we'll continue to drive focus on those parts of the IT business that we think have a better traction for growth for us, and we actually have seen that over the last couple of years, we continue to see that. And those are the ones that are deeply connected to our Lean Digital journey, that are deeply connected to the specific services that we have expertise on, that we have differentiation on. Where the choice of the IT partner is driven by the understanding of the domain and that's the one who wins.

And we know those spaces, we have made those choices. And as we continue to focus on those, we'll continue to see that growing, we'll continue to see the other parts of the business not growing as much, and over time, as we've seen in the GE Global Clients equation, that's what we'll see in the IT business as well.

Bryan Keane - *Deutsche Bank - Analyst*

Okay that's helpful. And is there a way to split your business in IT between those two sides?

Tiger Tyagarajan - *Genpact Limited - President and CEO*

Not at the moment, but as we further refine it, Bryan, we will come back to it.

Bryan Keane - *Deutsche Bank - Analyst*

Okay. Thanks so much.

Tiger Tyagarajan - *Genpact Limited - President and CEO*

Thanks, Bryan.

Operator

I'm showing no further questions at this time. I would now like to turn the call over to management for closing remarks.

Roger Sachs - *Genpact Limited - Head of IR*

Thank you everybody for joining us today, and we look forward to speaking to you again early next year. Thanks.

Operator

Ladies and gentlemen thank you for participating in today's conference. This concludes today's program. You may all disconnect. Everyone have a great day.
